

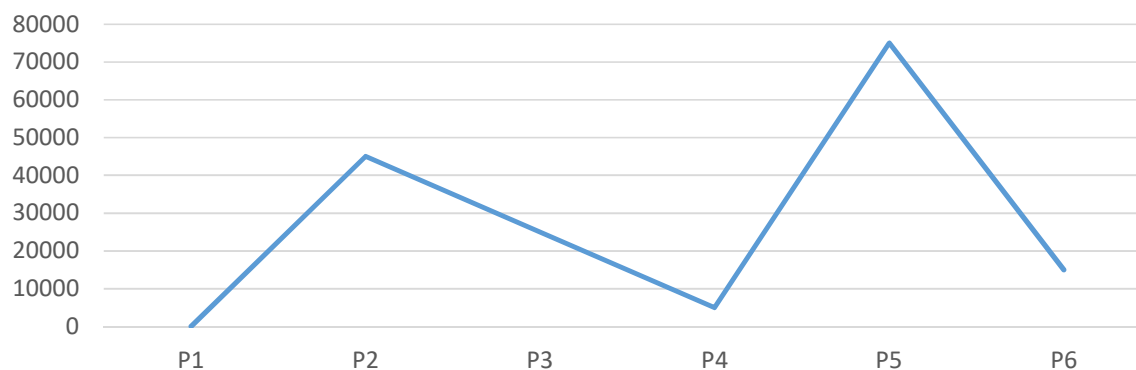
# QBR TW Question Response

**Question #1- Paul Durham, Benton PUD - With regards to the ENW Interest Expense Update, could BPA provide a visual of the before/after of the accounting process and walkthrough how BPA arrived at the Net Result on slide 7?**

# Impact *before* GAAP treatment of Interest Expense

- Prior to the change in non-Federal debt accounting, the interest expense would have been recognized on the income statement when *paid*.
- This could lead to fluctuations in expense recognition & cause swings on the income statement when Energy Northwest (EN) debt was refinanced.

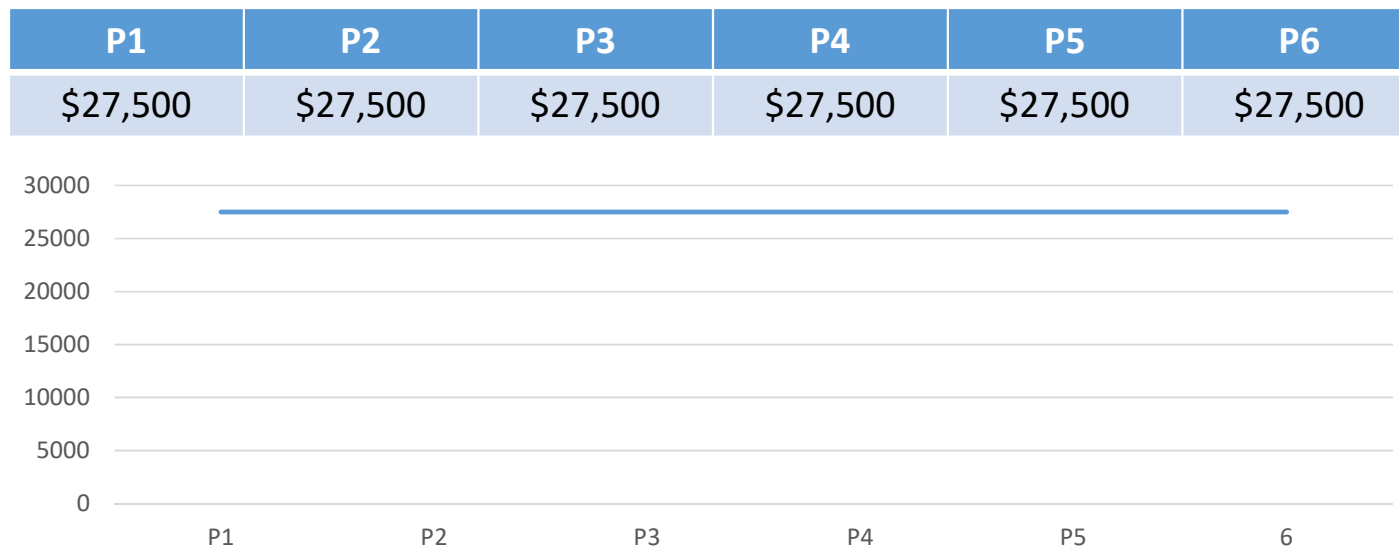
P1	P2	P3	P4	P5	P6
\$0	\$45,000	\$25,000	\$5,000	\$75,000	\$15,000



Note: Not actuals, amounts are used for example purposes

# Impact *after* GAAP treatment of Interest Expense

- After the change in non-Federal debt accounting, the interest expense would have been recognized on the income statement when *accrued*.
- This leads to smoother expense recognition in the income statement.



Note: Not actuals, amounts are used for example purposes

# FY'21 Slice Impact

**Problem:** Increase in interest expense was higher than anticipated. Since, it was not a cash payment Slice customers should not be impacted.

**Solution:** Use “non-cash expense” line to show impact on MRNR & accurately calculate MRNR

**Result:** Increase of \$67.3 million in Non-federal interest expense *offset* by the \$69.1 million of Non-cash expense for a net \$1.8 million reduction in cost.

	A	B	C
	Q1 FY 2021	Rate Case	Q1- Rate Case
	(\$000)	(\$000)	Difference
1 <b>Net Interest Expense</b>	\$ 243,178	\$ 202,407	\$ 40,771
2			
3 <b>Minimum Required Net Revenue Calculation</b>			
4 Principal Payment of Fed Debt for Power	\$ 518,065	\$ 518,065	\$ -
5 Repayment of Non-Federal Obligations (EN Line of Credit)	\$ -	\$ -	\$ -
6 Repayment of Non-Federal Obligations (CGS, WNP1, WNP3, N. Wasco, Cowlitz Falls)	\$ 22,871	\$ 22,871	\$ -
7 Irrigation assistance	\$ 22,147	\$ 22,147	\$ -
8 <b>Sub-Total</b>	\$ 563,083	\$ 563,083	\$ -
9 Depreciation	\$ 145,000	\$ 141,050	\$ 3,950
10 Amortization	\$ 310,400	\$ 349,151	\$ (38,751)
11 Accretion	\$ 34,600	\$ 35,213	\$ (613)
12 Capitalization Adjustment	\$ (45,937)	\$ (45,937)	\$ -
13 Non-Cash Expenses	\$ 50,785	\$ -	\$ 50,785
14 Customer Proceeds	\$ -	\$ -	\$ -
15 Cash freed up by DSR refinancing	\$ 15,885	\$ 15,885	\$ -
16 Prepay Revenue Credits	\$ (30,600)	\$ (30,600)	\$ -
17 Bond Call Premium/Discount	\$ -	\$ -	\$ -
18 Non-Federal Interest (Prepay)	\$ 8,863	\$ 8,863	\$ -
19 Contribution to decommissioning trust fund	\$ (4,300)	\$ (4,300)	\$ -
20 Gains/losses on decommissioning trust fund	\$ (5,220)	\$ (5,220)	\$ -
21 Interest earned on decommissioning trust fund	\$ (9,112)	\$ (9,112)	\$ -
22 <b>Sub-Total</b>	\$ 470,364	\$ 454,993	\$ 15,371
23 Principal Payment of Fed Debt plus Irrigation assistance exceeds non cash expenses	\$ 92,719	\$ 100,690	\$ (7,971)
24 <b>Minimum Required Net Revenues</b>	\$ 92,719	\$ 100,690	\$ (7,971)
33			
34 <b>Total Net Change (line 1 plus line 24)</b>			\$ 32,800

← Difference includes \$67.3M of non-Federal interest expense not initially reflected in the FY'21 rate case.

← Difference includes \$69.1 million increase reflecting the use of bond proceeds to repay non-Federal interest expense

← Difference lower by \$1.8 million (\$67.1 minus \$69.1) because of the non-Federal interest change.